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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 10-KSB

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2006

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from________ to__________

Commission file Number 333-137545

LAB123, INC.
(Name of small business issuer in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	45-0542515 (I.R.S. Employer Identification No.)
100 Field Drive, Suite 240, Lake Forest, Illinois (Address of principal executive offices)	60045 (Zip Code)

Issuer's telephone number: (847) 234-8111

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of each class	Name of exchange on which registered
None	None

Securities registered pursuant to Section 12(g) of the Exchange Act: None

Exhibit 40

If we fail to achieve certain financial results, we will be required to issue more shares of our common stock upon conversion of the Series A Preferred Stock and the exercise price of warrants to purchase common stock we issued shall be reduced.

Both the Series A Preferred Stock ("Series A Stock") and the warrants we issued in a September 6, 2006 private placement to Barron Partners, L.P. ("Barron") have anti-dilution provisions which increase the number of shares issuable upon conversion of the Series A Stock and reduce the exercise price of the warrants if we fail to meet pre-tax fully diluted income per share targets for the three months ending December 31, 2006 and the fiscal year ending December 31, 2007.

The target for pre-tax fully diluted income for the three months ended December 31, 2006 was \$.0306 per share. For such period we suffered a loss of approximately \$.02 per share on a pre-tax fully diluted basis. Therefore, the conversion value of our Series A Stock and the exercise price of the warrants we issued to Barron will be reduced by 40% and we will be required to issue 40% more shares of our common stock upon conversion of our Series A Stock and exercise of such warrants. The adjustment will result in (a) the issuance of 2,476,000 additional shares of common stock upon conversion of all outstanding Series A Stock) , thereby increasing the total number of shares of common stock issuable upon such conversion from 3,774,000 shares to 6,250,000 shares, (b) a reduction of the exercise price of our warrants to purchase common stock with an original exercise price of \$.80 per share from \$.80 to \$.48 per share, and (iii) a reduction in the exercise price of our warrants to purchase common stock with an original exercise price of \$1.10 per share from \$1.10 to \$.66 per share.

The target for pre-tax fully diluted income for the fiscal year ending December 31, 2007 is \$.19 per share. The exercise price of the warrants and the conversion value of the Series A Stock shall be reduced proportionately up to a maximum additional 25% reduction in the exercise price if the income per share is \$.1446 or less computed as provided in the purchase agreement. If either the foregoing adjustment is triggered, the holders of the Series A Stock would receive, on conversion of such Series A Stock, a larger number of shares of common stock, which will increase their percentage interest in our stock. We cannot assure you that there will not be such an adjustment. The maximum adjustment (assuming an additional 25% reduction in the conversion value of the Series A Stock and the exercise price of the Warrants as a result of a failures to meet income target for the fiscal year ending December 31, 2007 would result in (i) the issuance of 2,083,333 additional shares of common stock upon conversion of the Series A Stock, thereby increasing the total number of shares of common stock issuable upon such conversion from 6,250,000 shares to 8,333,333 shares, (ii) a reduction of the exercise price of our warrants to purchase common stock with an original exercise price of \$.80 per share from \$.48 to \$.36 per share, and (iii) a reduction in the exercise price of our warrants to purchase common stock with an original exercise price of \$1.10 per share from \$.66 to \$.495 per share.

We will recognize an additional deemed dividend for the conversion price reduction of approximately \$788,000 during the second quarter ended June 30, 2007. We will not recognize an additional charge for the reduction of the 3,774,000 warrants from \$0.80 to \$0.48 for 1,887,000 shares and from \$1.10 to \$0.66 for the remaining 1,887,000 shares during the second quarter ended June 30, 2007. We entered into a registration rights agreement with Barron whereby we were required to file a registration statement with the SEC, to register the resale of the shares of common stock that will be issued upon conversion of the convertible preferred stock and exercise of warrants. Under the liquidated damages provision, if we failed to meet the effectiveness deadline for the registration statement, we would have been required to issue 2,491 additional shares of the Series A Stock as liquidated damages for each day that the registration is not effective after the deadline until September 6, 2008. The registration statement we filed was declared effective in January 2007.